



UNIVERSITI PUTRA MALAYSIA

**MAXIMIZING PERFORMANCE THROUGH
PERFORMANCE MANAGEMENT SYSTEM:
A CASE STUDY IN AN ORGANIZATION IN THE BANKING
INDUSTRY**

MARIAM ABDUL RAHMAN

FPP 1999 20

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By

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**Masters Of Science (Human Resource Development)
Universiti Putra Malaysia
1998**



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**Project Paper Submitted In Partial Fulfillment Of The Requirements For The
Degree of Masters Of Science (Human Resources Development) At Faculty
Of Educational Studies
Universiti Putra Malaysia**

October 1998



This project paper entitled, "Maximising Performance Through Performance Management System: A Case Study In An Organization in the Banking Industry" by Mariam Abdul Rahman has been submitted in partial fulfilment of the requirements for the degree of Masters Of Science (Human Resource Development) at Faculty Of Educational Studies, Universiti Putra Malaysia.



Professor Madya Dr. Haji Turiman Suandi

Professional Development and Continuing Education

Faculty of Educational Studies

Universiti Putra Malaysia

(Supervisor)

Date: 10/5/99



Professor Madya Dr. Hajjah Mazanah Mohamad

(Examiner)

Date: _____

ACKNOWLEDGEMENTS

My appreciation to the Department of Professional Development and Continuing Education and IDEAL, Universiti Putra Malaysia for providing me with the opportunity to further my study in the area closest to my heart i.e. Human Resources. The opportunity for the distant learning has helped me to pursue what I have wanted to do for a long time but could not do it earlier due to the unavailability of such facility locally where I can study at home without the need to attend classes. The career commitment and family needs have always been on top of my priority list and therefore, furthering my study on part time or full time basis was almost impossible though facilities available was a plenty.

Special dedication to Associate Professor Dr. Turiman Suandi for his patience, assistance and encouragement for me in completing this paper. To Dr. Azizan Asmuni and Dr. Shamsuddin Ahmad for their advice, encouragement and understanding throughout my two and half year study. Without their constant encouragement I would have dropped the study half way.

To my father, for all his encouragements and his understanding that I could not fulfil his dream for me to become a lawyer, and to all my five sons who understand that 'Mom need to do homework first before we could go outings together'. Lastly, to my other half, who has patiently looked after the family needs when 'I don't feel like it' due to all the assignments.

May Allah bless all of you.

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Abstract of project paper submitted to the Department of Professional Development and Continuing Education of Universiti Putra Malaysia as a partial fulfilment of the requirements for the degree of Masters in Science (Human Resources Management).

**MAXIMIZING PERFORMANCE THROUGH PERFORMANCE MANAGEMENT
SYSTEM
A CASE STUDY IN AN ORGANISATION IN THE BANKING INDUSTRY**

**By
MARIAM ABDUL RAHMAN
December 1998**

Supervisor : Associate Professor Dr. Turiman Suandi

Faculty : Educational Studies

Performance measurement is about measuring contribution of employees; it is the process of seeking to establish the output of staff performance against the rewards. Organisations need to have a proper measurement of performance management as it is crucial to any incentive pay plan of the entire company.

Employees need performance management as it helps them to learn what they need to do or do differently in order to meet their set targets and meeting the organisations objective for them to reap the benefits individually, as a team or as an organisation. The success of the performance management in an organisation will depend on all the people involve in the process; the type of performance management system chosen, the implementation process and the rewards and recognition attach to

the system will determine the motivational factors in the organisation not mentioning the ignition factor for any grievances, low morale and pushing factor for staff to look for greener pasture.

The study was carried out to review the efforts taken by an organisation in coming out with a new improve performance management system. The need for the change, the processes taken in identifying the new system as well as to study the feature of the new system in an effort to maximise staff performance was revealed.

Besides the above objective the study also intended to set a base for further research and study for more Malaysian companies on the need to review its performance management system in maximising the performance of their workforce for the benefits of employees career advancement and improving the companies bottom line.

The findings of the study were discussed under several sub-topics where it was revealed on reasons why the management of the organisation felt that there was a need to review the organisation performance management system. The finding showed that the diversified background of the people and different expectation from both the management and the employees resulted in the need to review the system. The processes taken by the organisation in establishing the new more comprehensive and holistic feature of a performance management system were identified.

In conclusion, the study revealed that the bank has taken a tremendous efforts at all level in maximising performance through a comprehensive performance management system.

Abstrak kertas projek yang dikemukakan kepada Jabatan Pembangunan Professional dan Pendidikan Lanjutan, Fakulti Pengajian, Universiti Putra Malaysian sebagai memenuhi keperluan Ijazah Sarjana Sains (Pengurusan Sumber Manusia).

**MEMAKSIMUMKAN PRESTASI MENERUSI SISTEM PENGURUSAN
PRESTASI:
SATU KAJIAN KES DI SEBUAH ORGANISASI DI DALAM INDUSTRI
KEWANGAN**

Oleh
Mariam Abdul Rahman
Oktober 1998

Penyelia : Associate Professor Dr. Turiman Suandi
Fakulti : Pengajian Pendidikan

Pengukuran prestasi adalah penilaian terhadap sumbangan pekerja; ia adalah satu proses di mana tujuannya ialah untuk mengukur tahap sumbangan pekerja berbanding dengan imbuhan yang diberikan kepada mereka. Organisasi perlukan satu kayu pengukur terhadap pengurusan prestasi kerana ia sangat penting kepada mana-mana pelan gaji dan insentif untuk keseluruhan kakitangan di organisasi itu.

Semua kakitangan memerlukan pengurusan prestasi untuk membantu mereka untuk melihat apakah yang patut mereka lakukan atau apakah cara yang betul patut mereka lakukan untuk mencapai objektif yang telah ditetapkan oleh organisasi mereka. Pencapaian objektif dengan proses yang betul akan menguntungkan kakitangan secara individu, secara kumpulan ataupun keseluruhan organisasi. Kejayaan pengurusan prestasi dalam sesebuah organisasi bergantung kepada semua individu yang terlibat dalam proses ini; bentuk sistem pengurusan prestasi yang dipilih; cara prosesnya dijalankan dan imbuhan serta pengiktirafan yang ada di dalam pengurusan prestasi tersebut akan menentukan faktor motivasi organisasi itu. Kegagalannya akan menjadi sebab untuk timbulnya sungutan dan rungutan yang akan menyebabkan kekurangan

semangat, dan menjadi penyebab kepada kakitangan untuk mencari tempat kerja yang dianggap lebih sesuai.

Kajian ini diijalankan dengan matlamat untuk melihat usaha-usaha yang telah diambil oleh organisasi yang dipilih untuk mengkaji semula sistem pengurusan prestasi yang ada dan membuat satu sistem yang baru dan yang lebih menyeluruh. Kajian juga mengupas sebab-sebab mengapa perlunya sistem yang ada diubah dan dibentuk kepada yang baru. Selain itu, matlamat kajian adalah juga untuk menjadi asas kepada kajian yang lebih mendalam dan menyeluruh kepada organisasi-organisasi di Malaysia untuk menilai semula sistem pengurusan prestasi dengan matlamat utama iaitu memaksimumkan prestasi kakitangan untuk memantau pembangunan kerjaya masing-masing dan meningkatkan keuntungan organisasi.

Analisis dan penemuan kajian dibincangkan di bawah beberapa tajuk yang berlainan di mana penemuan juga menunjukkan sebab-sebab mengapa organisasi tersebut ingin mengubah sistem yang ada. Sebab-sebab seperti latarbelakang kerja yang berlainan kerana kebanyakan kakitangan adalah diambil dari banyak organisasi yang lain untuk memenuhi keperluan tenaga kerja di organisasi yang dipilih, dan amalan budaya kerja yang berlainan serta harapan yang berbeza dari pihak pengurusan dan pekerja, menjadi sebab utama mengapa perubahan perlu dibuat.

Penemuan juga menunjukkan tiap-tiap peringkat usaha yang dijalankan dalam memastikan yang sistem ini adalah sesuai. Ia juga akan menunjukkan semua ciri-ciri baru yang terdapat di dalam sistem pengurusan yang baru dibuat.

CHAPTER ONE

INTRODUCTION

The Problem and Its Context

When hopeful candidates in job interviews were asked for reasons they intend to leave their current employment, they generally said that they are looking for better opportunity. When they are probed further, many cited reasons such as they were not satisfied with their salary and that they were not being rewarded accordingly for the job they were doing and the qualifications and experience they have. Similarly, a lot of grouses and complaints highlighted by employees to their employers were related to rewards and recognition. Many cited complaints on unfair appraisals as compared to their contributions. This trend of job hopping and moving out from one company to another has been a common problem to all industries in Malaysia. We have always been plagued with questions like why people left the company they are working with. Reasons like looking for greener pastures, looking for better salary, benefit package and seeking a better career advancement have all been answers given in any exit interviews.

An important thing that any Human Resource practitioner must realise is that there is always a factor that contribute to the pushing factor in any resignation. There must be a reason why the pushing factor was ignited.

Grievances and more grievances are voiced out through all communication channel of any organisation every year. And most of these grievances originated from the dissatisfaction that there is a lack of recognition to the employees contribution towards the company. This contribution which is referred to as employees performance are being measured by the employer at a regular interval.

When there is lack of recognition in term of higher increase in salary, promotion and career development, consequences will be low productivity, low morale and these will lead to low bottom line i.e. profit.

Statement of Problem

Most private companies in Malaysia have a tool to measure performance of their employees for various reasons. There are two main reasons why employees performance are measured. They are to determine the reward to be given to the employees and to chart the staff movement and development programme. Executive groups especially are those who are being measured in terms of their contribution and effectiveness in their job. A very simple logic is that the organisation wants to ensure that these employees are worth the money that are spent on them. Staff from this executive group especially are those who man the companies and who manage the operation to ensure the profitability of the organisation at the end of the financial year. The burden and the responsibility are on them to ensure the growth of the organisation. The chunk

of the expenses are used to maintain these category of people in term of their monthly salaries, bonus, allowances and other benefits.

Performance appraisal within management has become standard practice in many companies throughout the world and is currently being adopted and practised by many organisations in Malaysia, often as an important feature of management development programs.

It has been established that most of the employees find that the routine of going through the process of performance appraisal has nothing to do with the intention of measuring their appraisal and to determine the reward later. It was just a matter of formalities that they have to go through every year.

The dissatisfaction among these people may be the result of ignoring the actual reason for having the performance measurement. It may be the implementation process. It may also be the lack of a comprehensive core attributes that are being measured. It may also be the lack of effectiveness in utilising the feedback gathered through the process; or the reward that are given to the appraisee after the evaluation was done.

This study was aimed at exploring the efforts made by the identified organisations in maximising performance through an improved performance management system. It detailed out the process of coming up with a new

performance management system in a concerted effort to achieve the organisations mission and vision.

The study questions addressed were:

1. What ignited the change to a new/improved/revision of the organisation performance management system.
2. What are the process involved in implementing the new performance management system. How is the system implemented?
3. What makes the new performance appraisal different from the previous practices?

Specifically, the study seeks to explore and to under study the process involved in determining the type and facade of the new/revised performance management system within the organisations identified and to identify the gap between the feature of the revised system and the features as suggested by the literature.

Linkages of individual needs and the organisational needs

In most organisations, top management determines the objective that will affect the stakeholders; the management come out with company's strategies and plan and cascades them down into the organisation. This is more evident in a holding company where there are highly diversified business activities. The strategies, plan and objective then are passed on to each succeeding

management level and the managers at respective level will influence the people in developing their own action plans and tactics and again cascade them down to the next level. Then, employees at every level will work their sweat out in trying to achieve the objective set for them. If they are confused, they will be lost in the activities of the company. They are then, appraised by their achievements and disappointment in achieving the target.

This so called MBO techniques and its process sometimes can overwhelm a medium to small sized company within a holding/corporation. The planning process itself sometimes overshadowed the results achieved at the end of the year.

Employees in this traditional performance evaluation processes are appraised by how close they attempted to connect their individual self to the cascading objective. The evaluation process which is supposed to be objective now has become subjective and lengthy. Most of the time this contribute to staff grievances and will push the gap between staff objective and company's objective further.

One of the most effective ways an organisation can pursue its strategic objectives is to develop a spirit that everyone has a stake in the organisation's success by building a sense of responsibility, accountability and ownership. In Open-Book Management, Case (1995) writes, "Since the economic future of every blessed individual on a company's payroll depends on whether the

company succeeds in the market-place, everyone who works there is 'in business' all the time, whether they know it or not." (p. xvii)

The above can be illustrated by :



Figure 1. What organisation wants & what it gives. Source: Omar Ismail, Adjunct Professor, UPM (in his lecture on Organisational Development, 1997)

Though the illustration is simple that the organisation would want all employees' loyalty, participation, involvement, dedication, hard work and contributions from its employees; in return the organisation will give the salary, security, staff benefits and appropriate working environment for the staff to grow and prosper in their career; the organisation need a tool to reward the employees accordingly. The missing link between the two boxes in the illustration is what the management must equipped these staff to be able to make effective and efficient contribution in order for the staff to give their maximum.

Objectives of the study

General Objective

The study was to identify the processes taken by the identified organisation in establishing a new performance management system as a tool to maximise performance.

Specific Objectives

The specific objectives are as follows:

- to identify the factors that contribute toward the need for an improved and effective performance management system.
- to describe the processes which has taken place in establishing the new performance management system in one particular organisation and;
- to discuss the old and new practices of performance management system of an organisation which has reviewed its system.

Significance of Study

The study was intended to identify factors that contribute to the need to establish a well defined performance appraisal practice in the performance management system of the organisation.

The performance management process itself is an ongoing affair and to some it has become a routine that is taken for granted. Therefore the findings may help to point out at what stage of the process that can be improved in ensuring that the system is utilised as it was intended to be. It will help Human Resource practitioner to continuously influence the management that performance management system is part of the strategic planning for the overall success of the company.

Assumptions

The study works on the assumption that the performance management system is an accepted tool to measure performance in the organisation. That the appraisal is taken as a medium to determine the level of performance of individual and that an objective is expected out of the appraisal.

The term of performance management system refers to all the routine process in evaluating performance. Though the assumption that performance management system is a tool, the intended results from the utilisation of the tool may be different from one organisation to another, and expectation from employees differ from each other.

The findings of this study will build on the management style perspective and also on the intended results in using the performance management system.

Limitations

The researcher recognised that the study are based on the hands-on experiences of the researcher while in the employ of the organisation and therefore will be viewed as revealing the actual experience or to a certain extent will be viewed as detailing the involvement of the researcher while in the employ of that organisation. Nevertheless since this is an academic study, the researcher feel that the detailing of the processes involve will help the others in identifying the triggers that may require a review of the performance

management practices in any organisation. The study will focus on the situations that warrants for changes and the processes undertaken in establishing the performance management system in the organisation; these review in the study will be a determining factor in ensuring the completeness of a performance management system.

The findings derived from this study will be focused to one organisation in which the researcher has worked with. Performance appraisal and the whole performance management system is viewed differently from one individual to another and one company to another; therefore the study will be limited to perceptions of the people within the organisations and the feedback the researcher manage to gather from all the documents viewed and secured while managing the project of performance management system.

Definition of Terms

INDIVIDUAL OR ORGANISATION'S OBJECTIVE

Specific targets on which individuals and departments focus to make sure the organisation achieves its goals or business plan.

PERFORMANCE APPRAISAL

It is a routine appraisal, done normally yearly (at the end of financial year) through a standard format by an immediate supervisor. This is normally the document that formalise the performance management. According to Mondy

(1986) It is a formal system of periodic review and evaluation of an individual's or team's job performance.

PERFORMANCE MANAGEMENT SYSTEM

It is the whole process of performance management; from the setting up of objective to the monitoring, appraising, reward, recognition and development of staff. Whereas 'system' means an inner workings of an organisation, such as its policies for welfare and benefits, compensation, career development, selection process, and its procedures on conducting certain job.

REWARD AND RECOGNITION

It is the other part of the intended result of measuring performance. After a staff's performance is measured, the organisation will reward the staff with an increase in salary , equity adjustment or recognise the excellent productivity with payment of bonus or other benefits in cash or kind.

STAFF DEVELOPMENT

Staff development is one part of the intended result of measuring performance. After a staff 's performance is measured, the organisation will analyse the result and chart the development and career of the staff . This is done in line with his weaknesses and strength. The staff is also being monitored on his potential to be groomed for other areas of job and/or higher responsibilities. All these progress are being recorded and the staff is briefed on this on his regular appraisal and counselling.

CHAPTER TWO

REVIEW OF LITERATURE

Performance Management

Performance management is an effort of managing the performance of staff and the overall performance of the organisation. It is a cycle that includes the setting of objective, planning the performance, coaching and counselling, evaluating the level of achievement and determining the reward. The cycle does not stop at paying the reward. It continues by evaluating the staff's development progress and planning for their career advancement.

Performance management is thus, a process within the Human Resource Management in ensuring the achievement of the organisational objective i.e. overall target of the organisation. It is the whole effort of managing performance so that the organisational result can be achieved. It is a process in ensuring the organisational effectiveness in general.

Performance management is a comprehensive process in which it considers the totality of employees performance; the behavioural skills that contribute to the results achieved at the end of the review period. Competencies are the base from which the results are built. Therefore, the performance development part of Performance Management will address the development of employees competencies.

When performance is properly managed, the organisational effectiveness is assured. Performance Management is the binding force between employees as an asset and the results which the organisation wish to achieve in its business. The diagram below shows the **Continuous cycle of Performance Management**

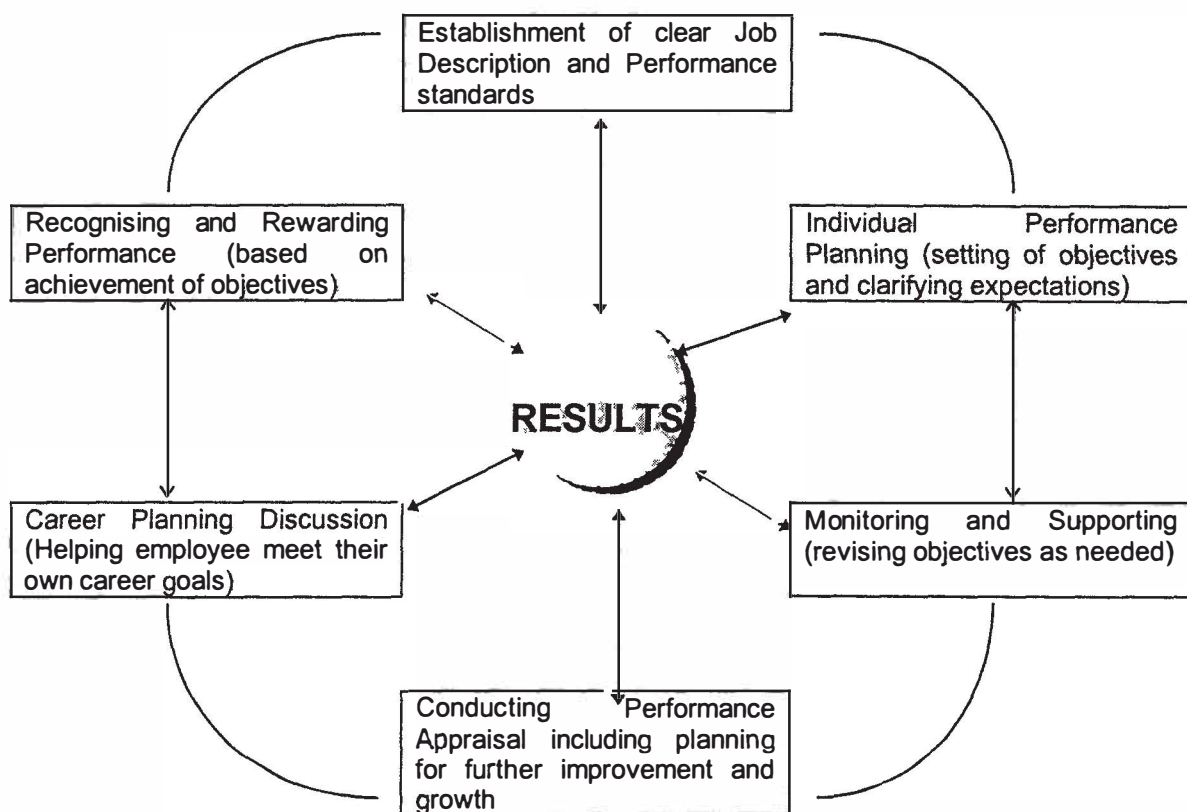


Figure 2: Continuous cycle of Performance Management. Adapted from Performance Management at Chase Bank.

Performance Appraisal

All employees are appraised on their job performance in some manner or another. Edwin Flippo (1980) said *In general the approaches in job performance can be any of these:*

1. *a casual, unsystematic and often haphazard appraisal.*
2. *a traditional and highly systematic measurement of a) employee characteristics, b) employee contributions, or c) both.*
3. *Mutual goal setting through a Management by Objectives program (MBO)*

Various studies have revealed an increase in the number of firms choosing some formal type of appraisal. As early as in 1964 American companies have started to use a formal performance evaluation tools as the studies in Personnel Policy revealed by National Industrial Conference Board (1964), a survey of 426 firms in that year resulted in 67% reporting a formal rather than casual attempt to evaluate employees. In supporting that finding, Varney (1972) wrote, there was a direct relationship between size of firm and incidence of formal plans, with 87% of those having more that 5,000 employees, using a systematic approach. A survey of approximately 1,000 firms indicated that 80% have some type of formal appraisal system. One third of the firms reported utilisation of Management by Objective.